

ATTACHMENT II

RATE OF RETURN BUSINESS INCENTIVES

C. Adverse judgments excluded from ratebase, litigation costs excluded from ratebase only if adverse judgement

Stockholder risk of aggressive interpretation =

Chance of litigation X Chance of losing X Probable cost of adverse judgment

PLUS

Chance of litigation X Probable litigation costs (monetary cost, reputation, etc.)

Stockholder advantage of aggressive legal interpretation =

Chance of litigation X Chance of winning X Probable cost of compliance = Zero (paid by ratepayer)

LESS

Chance of litigation X litigation costs (no monetary cost as it is paid by ratepayer, only remaining incentives are reputation, etc.)

PLUS

Chance of no litigation X Probable cost of compliance = Zero (paid by ratepayer)

ATTACHMENT III

PRICE CAP BUSINESS INCENTIVES

Below cap - Normal Business incentives apply

Above cap

A. Adverse judgments and litigation costs included in ratebase

Stockholder risk of aggressive interpretation =

Chance of litigation X Chance of losing X Probable cost of adverse judgment X 1/2 (1/2 cost paid by ratepayer)

PLUS

Chance of litigation X Probable litigation costs (1/2 monetary cost as remainder is paid up by ratepayer, remaining incentives are reputation, etc.)

Stockholder advantage of aggressive legal interpretation =

Chance of litigation X Chance of winning X Probable cost of compliance X 1/2 (1/2 of cost paid by ratepayer)

LESS

Chance of litigation X litigation costs (1/2 monetary cost as remainder is paid by ratepayer, remaining incentives are reputation, etc.)

PLUS

Chance of no litigation X Probable cost of compliance X 1/2 (1/2 paid by ratepayer)

B. Adverse judgments excluded from ratebase, all litigation costs included in ratebase

Stockholder risk of aggressive interpretation =

Chance of litigation X Chance of losing X Probable cost of adverse judgment

PLUS

Chance of litigation X Probable litigation costs X 1/2 (1/2 monetary cost is paid by ratepayer, remaining incentives are reputation, etc.)

Stockholder advantage of aggressive legal interpretation =

Chance of litigation X Chance of winning X Probable cost of compliance X 1/2 (1/2 paid by ratepayer)

LESS

Chance of litigation X litigation costs X 1/2 (1/2 monetary cost is paid by ratepayer, remaining incentives are reputation, etc.)

PLUS

Chance of no litigation X Probable cost of compliance X 1/2 (1/2 paid by ratepayer)

ATTACHMENT III

PRICE CAP BUSINESS INCENTIVES

C. Adverse judgments excluded from ratebase, litigation costs excluded from ratebase only if adverse judgement

Stockholder risk of aggressive interpretation =

Chance of litigation X Chance of losing X Probable cost of adverse judgment

PLUS

Chance of litigation X Probable litigation costs (monetary cost, reputation, etc.)

Stockholder advantage of aggressive legal interpretation =

Chance of litigation X Chance of winning X Probable cost of compliance X 1/2 (1/2 paid by ratepayer)

LESS

Chance of litigation X litigation costs X 1/2 (1/2 monetary cost is paid by ratepayer, remaining incentives are reputation, etc.)

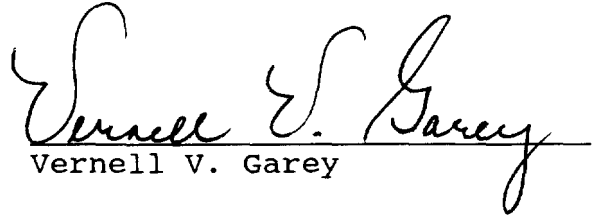
PLUS

Chance of no litigation X Probable cost of compliance X 1/2 (1/2 paid by ratepayer)

CERTIFICATE OF SERVICE

I Vernell V. Garey, hereby certify that on this 5th day of November, 1993, copies of the foregoing "REPLY" were served by first-class mail, postage prepaid upon the parties on the attached list, except as otherwise indicated.

***By Hand**


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